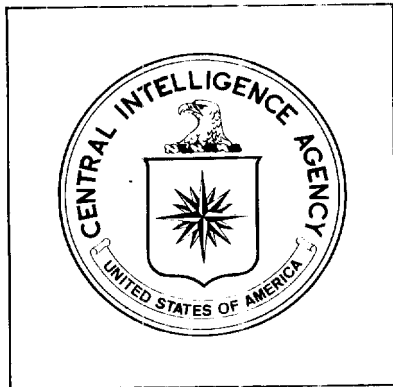


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SOVIET UNION - EASTERN EUROPE

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Soviets Play Up US-Israeli Understandings

The Soviets continue to mute the public criticism of the recent Sinai II agreement, but they are playing up the US-Israeli understandings that accompanied the accord.

Moreover, press comment has focused on the weapons that may be supplied Israel as a result of the agreement. *Izvestia*, for example, on September 17 carried an article emphasizing the range of the Pershing and the threat it posed to Arab capitals. The article asserted that there was nothing to prevent Israel from using the missiles "with nuclear warheads of its own."

These statements appear to be part and parcel of Moscow's continuing effort to denigrate the importance of Secretary Kissinger's diplomacy, while at the same time telling the Arabs that they must be wary of piecemeal steps toward peace and ought to look to the USSR for support. For example, *Pravda* on September 21 seconded those Arabs who allegedly see in the secret understandings a serious danger to peace efforts in the Middle East and said that Israel regards partial steps as a way to avoid resolving the Middle East problem.

Foreign Minister Gromyko said nothing about the US-Israeli understandings when he appeared before the UN General Assembly on Tuesday. Gromyko was, however, obliquely critical of Sinai II, and he said no one (read, Secretary Kissinger and President Sadat) could undermine Moscow's deep friendship with the Arab countries. Gromyko did not comment on Secretary Kissinger's proposal for an informal multilateral meeting on the Middle East. Instead, he called for a resumption of the Geneva

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conference with the participation of all interested parties as the most appropriate mechanism for resolving the Middle East problem. This is the first time since Sinai II was initiated that the Soviets have suggested a return to Geneva.

Soviet media thus far have carried only one highly selective account of Secretary Kissinger's remarks in New York on the Middle East. That version ignored the proposal for a multilateral meeting and did not acknowledge the Secretary's statement that discussions with the Soviets had already begun on possible diplomatic approaches for a just and durable peace. (CONFIDENTIAL)

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Soviet Nonconformist Art Goes Public

The largest officially approved indoor exhibit of nonconformist art in Soviet history opened in Moscow on September 21, a day behind schedule and a day after the closing in Leningrad of a similar and successful, ten-day show.

The opening of the Moscow show was delayed after some of the 160 artists protested the city fathers' removal of 41 of the paintings by walking out with many of the nearly 800 works to be exhibited. The officials charged that the confiscated paintings violated a previously agreed ban on religious, pornographic, and political art. As examples, they cited a canvass with Hebrew writing, several "scandalous" paintings, and a portrait of Mao which they called--presumably tongue-in-cheek--a danger to Sino-Soviet relations.

In a compromise reached after heated negotiations the same day, city authorities put back on exhibit most of the confiscated works, promising a return of the rest to their owners when the show closes. The early release of one artist from outside of Moscow who had been jailed on minor charges of hooliganism was thrown into the bargain. The non-conformists view the official backdown as a victory over heavy-handed tactics, but both sides in fact seemed relieved that the conflict had been resolved.

The Moscow exhibit compares favorably with that in Leningrad, featuring a wide range of abstract, surrealistic, primitive, and pop-representational works, both paintings and sculpture. Despite the official restrictions, much of the art flirts with subtle religious and semi-political themes.

Tass in English briefly noted the opening in Moscow, probably in an attempt to gain favorable

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publicity in the West. Concern over its image abroad was clearly the regime's main reason for permitting the Leningrad and Moscow shows.

Beyond this concern, however, the regime probably hopes that its conciliatory tactics will induce the nonconformists to accept a modicum of official control over their activities, perhaps eventually leading to membership in the artists' union. For their part, the majority of the artists are trying to bend the official doctrine of socialist realism, and set a precedent for at least some acceptance of nonconformist art by the establishment. Both sides remain wary of each other, knowing that the challenge to orthodoxy represented by the artists goals is unlikely to be easily or lastingly resolved. (CONFIDENTIAL)

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High-Level Romanian Military
Delegation Reportedly Is in China

According to a [REDACTED] source in Bucharest, Major General Dumitru Dumitru, the chief of Romanian military intelligence, is heading a group of high-level military officers on a working vacation in China. This is the third high-ranking delegation Bucharest has dispatched to China this month. The visit has not yet been reported in Romanian or Chinese media, but since the late 1960s, such trips have become an annual event.

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Dumitru's entourage reportedly includes Deputy Defense Minister Major General Gomoiu, the deputy chief of staff of the patriotic guards, and five senior colonels, including President Ceausescu's brother, Ilie.

The composition of the delegation suggests a broad-gauged exchange on political as well as intelligence topics. Gomoiu, who had correct but cool talks with Soviet Marshal Yepishev in Moscow in late July, may use the occasion to continue the dialogue begun a little more than two weeks ago when he spent five days in China en route home from Hanoi's national day celebrations.

The delegation may also discuss Moscow's renewed stress on the need for ideological unity and a reported meeting of the Pact's intelligence chiefs in Warsaw next month. (CONFIDENTIAL)

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Soviets Examine Alternatives to
Export-Import Bank Financing

The USSR is exploring the possibility of tapping US insurance investment funds. Moscow recently initiated informal discussions with a major US insurance firm on the possibility of obtaining long-term loans to finance equipment purchased in the US. Another insurance company reportedly has already agreed to finance the last three years of a 10-year commercial loan to the USSR.

The overture reflects Moscow's critical need to find a source to fill the financial role earlier played by the Export-Import Bank. The bank's participation in lending to the USSR in 1972 and 1973 not only lowered the interest rate, but significantly increased the length of time before the loans became due. Commercial banks are generally unwilling to loan for periods in excess of eight years, and the Export-Import Bank's willingness to pick up extra years enabled the Soviets to secure financing of up to 12 years.

US insurance firms are accustomed to loaning funds well in excess of eight years and presumably could fill Eximbank's role of stretching repayments out for ten years or more. Participation by insurance firms could also skirt US regulations limiting the volume of loans a commercial bank can make to any one borrower.

The role of insurance firms in the financing of US-Soviet trade appears to be limited, however, by tradition and regulation. Insurance investors have been domestically oriented and have generally sought investment opportunities with relatively few risks. Moreover, state and federal regulations strictly limit that portion of an insurance firm's investment portfolio that can be committed to risk investments, including the financing of foreign trade. (CONFIDENTIAL NO FOREIGN DISSEM)

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